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The Unemployment Rate and Beyond: Alternative Measures of Labor Underutilization

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The Unemployment Rate and Beyond: Alternative Measures of Labor Underutilization

Abstract

[Excerpt] The nation's unemployment rate is widely recognized as a key indicator of labor market performance. This is in large part because of the objective manner in which the concept of unemployment is defined. To be classified as unemployed, a person must be without work, be available for work, and have actively searched for work. The official unemployment statistics have stood the test of time; recommendations from several internal and external reviews have resulted in only minor refinements to the definition of unemployment since its inception in 1940.

It is recognized, however, that no single statistic can reflect all types of labor market difficulties. As a way to help assess labor market conditions from several perspectives, the Bureau of Labor Statistics (BLS) publishes five alternative measures of labor underutilization every month in the Employment Situation news release. Two of these measures are more restrictive than the official unemployment rate, and three are broader, incorporating individuals who are not captured in the official measure. All are constructed using data collected in the Current Population Survey (CPS).

Keywords

unemployment, labor, underutilization, alternative measures, Current Population Survey

Comments

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The Unemployment Rate and Beyond: Alternative Measures of Labor Underutilization

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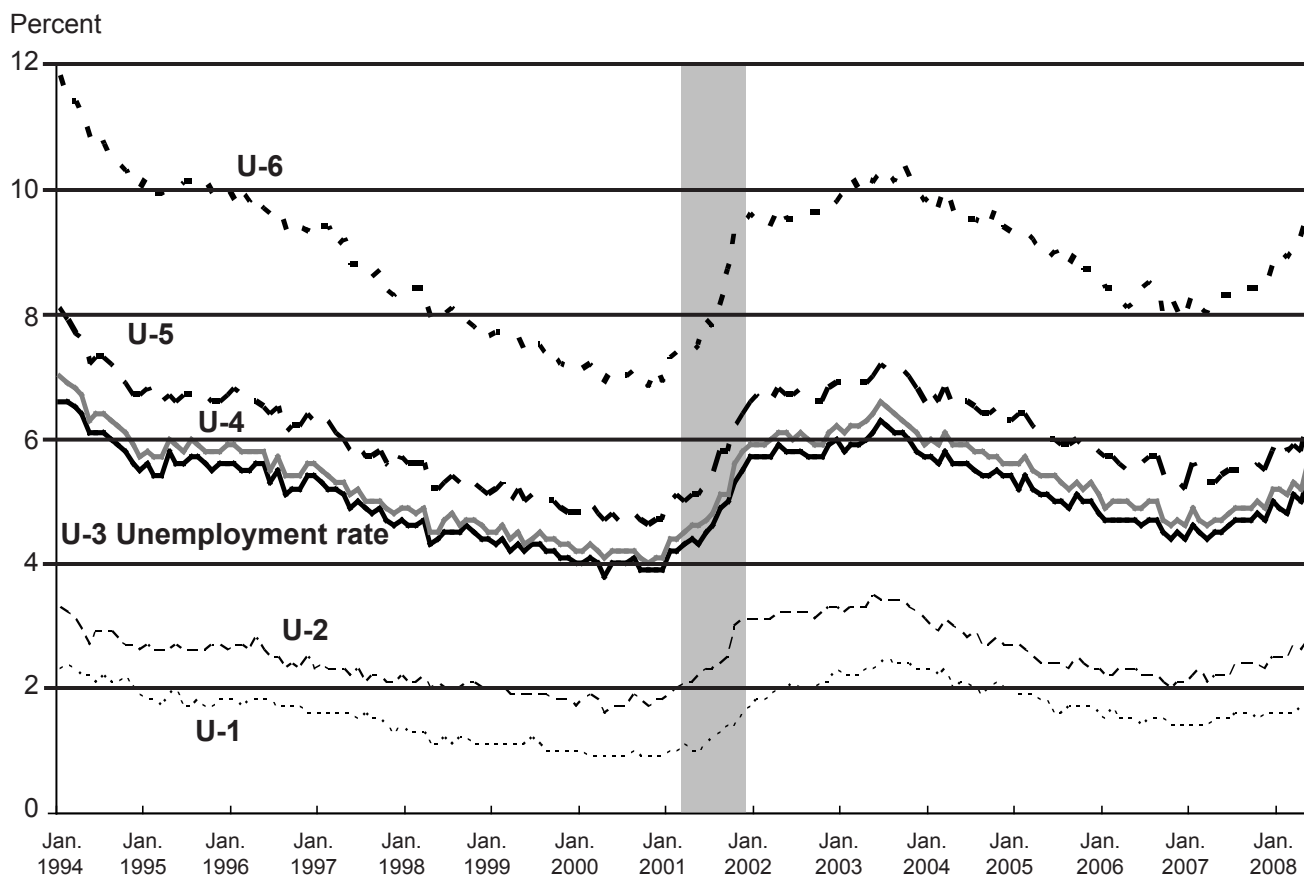
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Chart 1. Alternative measures of labor underutilization, seasonally adjusted, 1994-2008



NOTE: Shaded area denotes recession.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

Table 1. Alternative measures of labor underutilization, seasonally adjusted, selected months

[Percent]

Measure	May 2007	May 2008	Difference
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force	1.5	1.8	0.3
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force	2.2	2.8	0.6
U-3 Total unemployed persons, as a percent of the civilian labor force (the official unemployment rate)	4.5	5.5	1.0
U-4 Total unemployed persons plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	4.7	5.7	1.0
U-5 Total unemployed persons, plus discouraged workers, plus all other "marginally attached" workers, as a percent of the civilian labor force plus all "marginally attached" workers	5.4	6.4	1.0
U-6 Total unemployed persons, plus all "marginally attached" workers, plus all persons employed part time for economic reasons, as a percent of the civilian labor force plus all "marginally attached" workers	8.3	9.7	1.4

NOTE: The *civilian labor force* is the sum of the employed plus the unemployed. The employed are all persons who, during the reference week, a) did any work at all as paid employees, worked in their own business, profession, or on their own farm, or worked 15 hours or more as unpaid workers in an enterprise operated by a member of their family, and b) all those who were not working but who had jobs or businesses from which they were temporarily absent. The unemployed are a) persons who had no employment during the reference week, were available for work, except for temporary illness, and had made specific efforts to find work sometime during the 4-week period ending with the reference week, and b) persons who were waiting to be recalled to a job from which they had been laid off, regardless of whether they have been looking for work.

While the alternative measures differ in magnitude from the official unemployment rate, they typically show very similar movements over the course of the business cycle.¹ Between May 2007 and May 2008, for example, all of the alternative rates rose, as did the official rate. (See chart 1.)

The original set of alternatives to the official unemployment rate dates back to 1976, when BLS, under the direction of Commissioner Julius Shiskin, developed and introduced a range of labor market measures entitled U-1 through U-7. The original indicators reflected the need for a broad range of measures. Nearly two decades later, as part of the 1994 redesign of the CPS, the alternative measures were revised, primarily to take into account new data collected in the revamped survey. The current measures are entitled U-1 through U-6.

The lowest rate of labor underutilization, U-1, is the most restrictive, and consists only of the subset of the unemployed who were jobless for at least 15 weeks. U-1 was 1.8 percent in May 2008, up from 1.5 percent a year earlier. (All of the figures in this paper are seasonally ad-

justed unless stated otherwise. Detailed definitions of the official and alternative measures are found in table 1, along with the rates for May 2007 and May 2008.)

The second lowest rate, U-2, was 2.8 percent in May 2008. It includes only that portion of the unemployed who lost their last job (including those who completed temporary jobs); it does not include those who left their last job voluntarily or who were new entrants or reentrants to the labor force.

U-3 is the official rate of unemployment and the one most typically cited in news stories about the economy. It rose from 4.5 percent in May 2007 to 5.5 percent in May 2008, reflecting an increase in the number of unemployed persons from 6.9 million to 8.5 million over this period.

U-4 and U-5 both add selected not-in-labor-force categories (that is, groups of persons neither employed nor unemployed) to the unemployed. U-4, which adds discouraged workers, is very close to the official rate, since the number of discouraged workers—those who want a job but have given up the search for work because they believe no

jobs are available for them—is small (400,000 as of May 2008, not seasonally adjusted) in relation to the number of unemployed persons. U-4 was 5.7 percent in May 2008, up from 4.7 percent in May 2007.

U-5 adds all marginally attached workers (1.4 million in May 2008), including discouraged workers, to the unemployed. The rate was 6.4 percent in May 2008, compared with 5.4 percent in May 2007. Marginally attached workers are those who want a job and are available to work now, and have looked for a job in the past year—but not in the past month—for a wide range of reasons that extend beyond discouragement over job prospects.

The broadest measure of labor underutilization, called U-6, includes the unemployed, the marginally attached, and persons who are actually *employed* but who work fewer hours than they would like (sometimes referred to as underemployed). Among the alternatives to the official rate (U-3), U-6 yields the highest rate. Like all of the other measures, U-6 has increased over the past 12 months, rising from 8.3 percent in May 2007 to 9.7 percent in May 2008. The

increase reflected the sizable rise in the number of persons who were working part time even though they wanted a full-time job—from 4.5 million to 5.2 million over the period.

While the official unemployment rate remains the primary measure of changes in labor underutilization, the alternative measures discussed in this paper provide different views of the extent to which the economy is not fully utilizing its labor resources.

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¹ The rates for U-1 and U-2 (as well as the official rate, U-3) go back to 1948. The rates for U-4, U-5, and U-6 began in 1994, when the most recent redesign of the CPS was implemented.